

Company Note

MID CORPORATE

SIT

29 March 2022: 7:50 CET

Date and time of production

FY21 Results

BUY

SIT reported positive results in FY21, even if the last quarter was weaker than the first nine months due to some margin erosion at the Smart Metering division. The sharp net debt reduction was a positive surprise. 2022 should be temporarily impacted by the conflict in Ukraine as SIT has a strategic supplier in the country and had to adopt a contingency plan. We lowered by around 5% our EBITDA estimate and set a new target price of EUR 12.4/sh. BUY confirmed.

Target Price: EUR 12.4
(from EUR 13.7)

Italy/Engineering & Machinery
Update

4Q/FY21 results

FY21 results were slightly below our expectations, mostly due to the lower profitability of the Smart Metering division in the last part of the year. The sales trend confirmed that the heating business was still growing in 4Q21, but at a lower pace compared with the first nine months, while the Gas Smart Metering business declined significantly, as expected, due to the end of the roll-out in Italy. Net debt was below our estimate decreasing to EUR 106.7M (from EUR 115.8M at Dec-20 and EUR 123.7M at Sept-21). DPS was increased to EUR 0.30 (from EUR 0.28 in 2020).

MTA

Price Performance
(RIC: SIT.MI, BB: SIT IM)



Outlook and estimates

We believe the positive trend of SIT's reference market will continue, in particular for the Heating division and we forecast a sales CAGR of around 5% up to 2024E while the slowdown of profitability at the Smart Metering division should be recovered in 2022 as SIT should benefit from new contracts at higher prices. However, the impact of the Ukraine-Russia conflict, specifically on one strategic supplier, has prompted SIT to adopt a contingency plan which should slow down the ongoing production transfer in Tunisia with a negative impact on the EBITDA margin, which we now expect at 13.1% leading to a net result 19% below our previous estimate. We also fine-tuned our 2023E forecasts and added our 2024E estimates.

SIT - Key Data

Price date (market close)	25/03/2022
Target price (EUR)	12.4
Target upside (%)	51.96
Market price (EUR)	8.16
Market cap (EUR M)	204.73
52Wk range (EUR)	12.0/7.1

Price performance %	1M	3M	12M
Absolute	-7.3	-22.3	12.7
Rel. to FTSE IT All Sh	-2.9	-14.3	10.9

Valuation

Following our estimates revision and the stock market drop (our peer sample was down 13.6% YTD), **our target price has been reduced to EUR 12.4/sh** (from EUR 13.7/sh). SIT remains undervalued given the current 53% discount to 2022-23E peers' EV/EBITDA. **BUY.**

Y/E Dec (EUR M)	FY21A	FY22E	FY23E
Revenues	380.5	399.5	418.7
EBITDA	51.22	51.73	59.24
EBIT	24.33	23.14	29.79
Net income	8.24	14.50	20.74
EPS (EUR)	0.65	0.58	0.83
Net debt/-cash	106.7	99.71	81.01
Adj P/E (x)	13.1	14.1	9.9
EV/EBITDA (x)	6.3	5.9	4.8
EV/EBIT (x)	13.2	13.2	9.6
Div ord yield (%)	3.5	3.7	4.9

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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Contents

4Q21 and FY21 results	3
Earnings Outlook	5
Valuation	7
ESG Corner	10
Company Snapshot	13

4Q/FY21 Results

Overall, FY21 results were slightly below our expectation, mostly due to the lower profitability of the Smart Metering division in the last part of the year. The sales trend confirmed that the heating business is still growing, but at a lower pace compared with the first nine months, while the Gas Smart Metering business declined significantly, as expected, due to the end of the roll-out in Italy. Janz revenues were up 24.1% (+6.8% in 4Q21). The key points of results were:

■ **Revenues down 5.1% in 4Q21.** We recall that sales were already disclosed in January (core sales at EUR 375.2M, +18.1% vs. 2020 with 4Q21 down 1.9% vs. 4Q20, consolidated sales EUR 380.5M), with the Heating division up nearly 20% in 2021 (+3.5% in 4Q21) and Smart Metering up 12.1% yoy (but down 17% in 4Q21) thanks to the contribution of Janz (+24.1% in FY21 and +6.8% in 4Q21). Italy was down 40.8% in the quarter, due to the drop of Gas Smart Metering (water metering increased by 6.8% and Heating division was stable), Europe was up 24.2%, with strong Central Europe and Turkey while the UK was down 18% due to the shortage of components from other suppliers, the US increased by 17.5% thanks to the booming trend of fireplaces (+40%) while Asia/Pacific was up 1.2%;

As expected, Metering was weak in 4Q21

SIT – Revenues breakdown in 4Q21 and FY21

EUR M	4Q20A	4Q21A	% Chg.	FY20A	FY21A	% Chg.
Italy	29.3	17.4	-40.8	107.7	107.0	-0.6
Rest of Europe	38.0	47.1	24.2	128.8	167.5	30.0
America	18.4	21.7	17.5	58.5	74.2	26.8
APAC	8.1	8.2	1.2	25.7	31.8	23.6
Heating	74.7	77.4	3.6	249.0	298.3	19.8
Gas Metering	18.1	10.4	-42.3	68.6	57.1	-16.7
Water Metering	4.2	4.5	6.8	15.9	19.8	24.1

A: actual; Source: Company data

■ **EBITDA margin declined to 9.8% vs. 12.0% in 4Q20**, somewhat below our expectations. The main reasons were:

Slight deterioration of EBITDA margin

- The reduction of the profitability in the Smart Metering division, as there were difficulties in passing to customers higher production costs,
- A higher weighting of labour costs (23.4% vs. 21.6% of sales in 4Q20) partially offset by lower raw material costs,
- Overhead costs in the new plant in Tunisia.

EBIT reached EUR 1.4M in the quarter being penalised by higher D&A for the additional PPA amortization of Janz. In the full year, the EBITDA margin reached 13.5%, substantially in line with 2020 while EBIT margin increase to 6.4% from 6.2% in 2020.

■ **Pre-tax result penalised by warrants fair value:** as expected, SIT accounted around EUR 9M in FY21 for the fair value of warrants which are currently out of the money (EUR 9.3 strike price, expiring this year). In addition, the company accounted EUR 0.6M charge for derivatives unwinding and EUR 0.4M of non-recurring cost of the refinancing of 3Q21, leading to EUR 13.7M of financial charges (EUR 3.7M adjusted) and to a pre-tax profit of EUR 11.7M in FY21 (negative in 4Q21);

EUR 9M negative impact for the fair value of warrants

■ **Net result adjusted at EUR 16.3M in FY21 (+21.6%)**, also thanks to a positive tax contribution of EUR 1.8M, already recorded in 1H21, due to the fiscal benefits coming from the Patent Box. Stripping out all the adjustments, net result was EUR 8.2M vs. EUR 13.2M in FY20. SIT announced a DPS of EUR 0.30, bang in line with our estimate, with a pay-out ratio of 91% and a yield of 3.7% at current market prices;

Adjusted net result up 21.6%

■ **Balance sheet: Net debt decreased to EUR 106.7M** (from EUR 115.8M at Dec-20 and EUR 123.7M at Sept-21), below our expectations thanks to a sharp improvement of trade NWC now at 11.9% of sales vs. 15.5% in 2020 driven by lower trade receivables. Net capex was EUR 26,1M in FY21, in line. The net debt/EBITDA ratio improved from 2.60x in 2020 to 2.08x and the gearing decreased to 0.69x from 0.76x in 2020. Capital turnover improved to 1.25x from 1.08x in 2020;

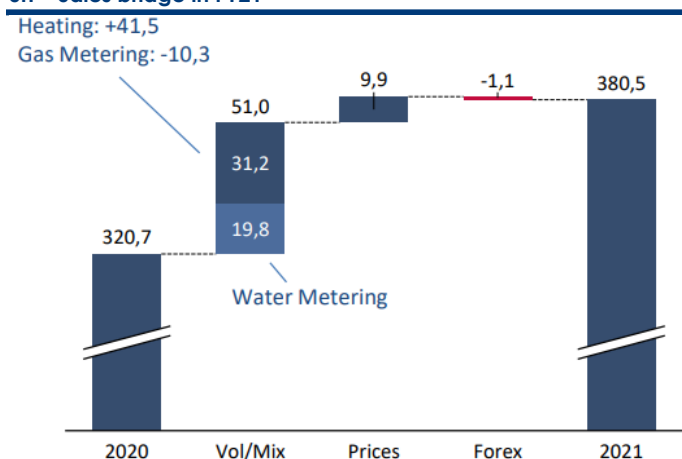
Net debt reduction thanks to lower NWC

SIT – 4Q/FY21 results

EUR M	4Q20A	4Q21E	4Q21A	4Q A/E %	4Q yoy %	2020A	2021E	2021A	2021 A/E %	21/20 %
Total Revenues	93.8	89.0	94.3	6.0	-5.1	317.6	375.2	380.5	1.4	19.8
o/w Heating	74.7	77.3	77.3	0.0	3.5	249.0	298.2	298.3	0.0	19.8
o/w Smart Metering	18.1	15.0	15.0	0.0	-17.0	68.6	77.0	76.9	-0.1	12.1
EBITDA Adj.	12.2	12.2	9.3	-24.1	0.0	44.6	52.1	51.2	-1.7	14.8
Margin (%)	13.0	13.7	9.8			14.0	13.9	13.5		
EBIT	4.5	3.9	1.4	-65.3	-13.1	19.6	26.3	24.3	-7.5	24.0
Margin (%)	4.8	4.4	1.4			6.2	7.0	6.4		
Pre tax	2.8	1.9	-0.3	NM	-32.3	16.0	13.3	11.7	-12.0	-26.8
Net Result attr.	1.8	2.4	-0.8	NM	29.9	13.2	11.0	8.2	-25.1	-37.7
Net result adjusted	1.6	2.4	0.5	-78.7	50.0	13.4	17.6	16.3	-7.3	21.6
Net debt	115.8	119.6	106.7	-10.8	3.3	115.8	119.6	106.7	-10.8	-7.8

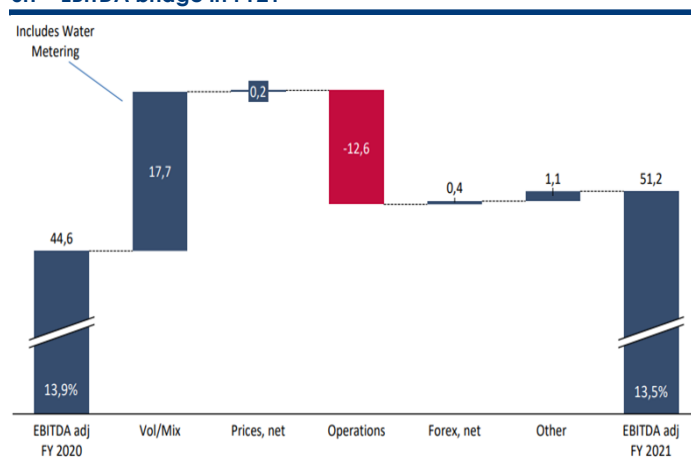
A: actual; E: estimates; NM: not meaningful; Source: Company data and Intesa Sanpaolo Research estimates

SIT – Sales bridge in FY21



Source: Company data

SIT – EBITDA bridge in FY21



Source: Company data

Earnings Outlook

Due to the increased uncertainties concerning supply chain constraints, cost inflation, and the impact of the Russia/Ukraine crisis, SIT did not provide any specific outlook for 2022. Still, the company is confident that the positive trend of its reference market will continue, in particular for the Heating division. The slowdown of profitability at the Smart Metering division should be surpassed in 2022 as SIT should benefit from new contracts at higher prices while the company expects to start to penetrate the UK and Indian markets with its smart gas metering solutions.

2022 should see the impact of the Ukraine-Russia conflict: SIT's direct sales in Russia are around 5% of the heating revenues (or around EUR 15M) and the company has no assets in the country. However, SIT also has a strategic supplier, part of a US multinational group, of electronic components (assembled circuit boards) in Ukraine (in the west part of the country, where the conflict is still not present), supplying 25% of SIT's needs. For this reason the company has put in place a contingency plan to replace this supplier or insource the production of and assembled circuit boards.

We believe the contingency plan could temporarily slow down the transfer of production in Tunisia, which is currently running at 30% capacity, keeping its industrial site in Holland operational. In our view, this would imply higher production costs, particularly on labour costs as the transfer of part of the production to the new plant in Tunisia would take longer, with an impact on the EBITDA margin this year. We therefore reduced our EBITDA estimate by 5.3%, leading to a net result of EUR 14.5M, 19% below our previous forecast. Clearly the duration and the potential escalation of the Russia-Ukraine conflict could jeopardise our estimates. Net debt is now expected at EUR 99.7M as we increased our capex estimate (to EUR 25.4M) and included in our estimate some trade NWC absorption.

2023 should see an easing of the current challenging conditions of the supply chain while the transfer of part of the production in Tunisia should be at regime (the company expects to run at 60% production capacity in Tunisia by the end of 2022) and therefore we expect a sizeable EBITDA margin improvement. The net result should surpass EUR 20M in 2023E. We also added our 2024E estimates, which point to a top-line growth of around 5%, sustained by the replacement of central heating systems, old boilers and water heaters with lower energy consumption appliances and by the recovery of the Smart Gas Metering business which should come from the development of the UK and Indian markets and the rebound of the Italian market linked to the replacement of old gas meters (we recall that the roll-out started in 2017). The EBITDA margin should further improve with a net result expected at around EUR 23.6M. Cash generation should remain healthy up to 2024E and we believe net debt should be progressively reduced to around EUR 60M at Dec-24.

No outlook provided due to uncertainties

One strategic supplier in Ukraine supplying 25% of assembled circuit boards for Heating

2022E estimates: EBITDA reduction due to the Russia-Ukraine conflict

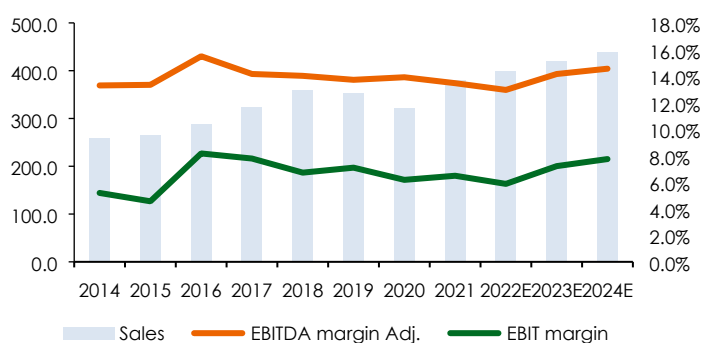
Margins recovery expected in 2023-24

SIT - Estimates revision (FY22E-24E)

EUR M	2022E	2022E	2022E	2023E	2023E	2023E	2024E
	Old	New	New/Old %	Old	New	New/Old %	New
Total sales	412.2	399.5	-3.1	432.1	418.7	-3.1	439.3
Core sales	409.0	394.0	-3.7	428.8	413.1	-3.7	433.6
o/w Heating	337.0	322.0	-4.5	353.8	338.1	-4.4	351.6
o/w Smart Metering	72.0	72.0	0.0	75.0	75.0	0.0	82.0
EBITDA Adj.	54.6	51.7	-5.3	61.1	59.2	-3.0	63.9
% margin	13.3	13.1		14.2	14.3		14.7
EBIT	26.1	23.1	-11.3	31.8	29.8	-6.3	33.6
% margin	6.4	5.9		7.4	7.2		7.7
Net result	17.9	14.5	-19.0	23.4	20.7	-11.4	23.6
Net result Adj.	17.9	14.5	-19.0	23.4	20.7	-11.4	23.6
Net Debt/(Cash)	102.6	99.7	-2.8	81.5	81.0	-0.6	59.8

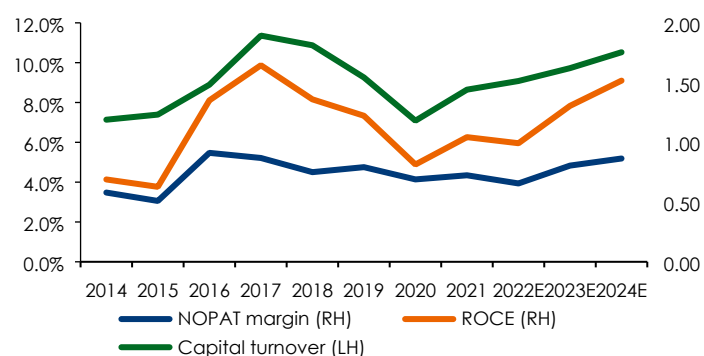
A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

SIT - Revenues, EBITDA margin and EBIT margin trend (EUR M, %)



A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

SIT - NOPAT margin, Capital Turnover and ROCE trend



A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Valuation

Our **new target price of EUR 12.4/share** (from EUR 13.7/share) reflects our new estimates but also the drop of the market (our peer sample was down 13.6% YTD and also SIT declined by 23.7%) and offers 51.2% upside prompting us to **confirm our BUY rating**. We believe SIT represents an attractive long-term investment, due to its technological leadership in the Heating sector where it is a frontrunner in hydrogen transition, its strong free cash flow generation, its diversification strategy, reduction of production costs thanks to the new plant in Tunisia, a robust balance sheet and the current significant undervaluation, with an average discount to peers of around 48% (57% on 2021-23 EV/EBITDA and 39% on P/E).

SIT – Valuation summary

Method - EUR	New valuation	Weighting %	02/02/2022	Delta %
DCF	11.7	33	11.6	0.9
Italian companies	11.6	33	14.0	-17.3
International companies (30% discount)	14.1	33	15.4	-8.6
Target price	12.4		13.7	-8.9
Current price	8.20		9.68	-15.3
Potential upside %	51.2%		41.1%	

Source: Intesa Sanpaolo Research estimates

Our target price is based on the average of a DCF (fair value of EUR 11.7/share) and relative valuations based on both the average of the multiples of international companies (applying a 30% discount to reflect the company's low liquidity and smaller size compared to other listed companies) and the average of certain Italian industrial companies. This gives a fair value of EUR 14.1/share using international companies and EUR 11.6/share using Italian companies.

Our DCF valuation incorporates a WACC of 7.8% based on the following assumptions: risk-free rate at 1.75% (from 1.0% previously), market risk premium at 6.25% (from 6.5%), Beta levered at 1.6x (based on the average beta of European Machinery sector; Source: Damodaran Jan-22) and a perpetual growth rate of 2.0%. Our DCF valuation implies a 6.1x EV/EBITDA at terminal value.

SIT – DCF valuation

	EUR M	% Weighting	Per share (EUR)
Sum of PV 2022-30 FCF	149.1	36.9	5.96
Terminal value	255.5	63.1	10.22
Total Enterprise value	404.6	100.0	16.18
- Pension Provision	(5.8)		(0.23)
- Net cash (debt)	(106.7)		(4.27)
Total Equity value	292.1		11.68
Fully diluted number of shares (m)	25.0		
Fair value per share (EUR)	11.68		

Source: Intesa Sanpaolo Research estimates

SIT – Peer comparison based on international peers

x	Market Cap. (EUR M)	P/E		EV/EBITDA	
		2022E	2023E	2022E	2023E
Bucher Industries	3,781	13.8	13.4	7.3	6.9
Beijer Ref	6,033	47.3	41.2	28.5	25.1
Emerson Electric	52,760	19.5	17.8	12.8	11.5
Honeywell	121,241	22.5	20.1	15.8	14.4
Trane Technologies	32,828	21.9	19.7	15.0	13.9
Landis + Gyr	1,728	17.5	14.4	9.8	8.3
Lindab International	1,710	17.1	16.1	10.3	9.5
NIBE Industrier	18,802	53.0	46.5	31.2	27.7
Resideo Technologies	3,278	12.4	10.8	5.4	3.9
Schneider Electric	85,810	21.7	19.6	14.5	13.0
SPX Corporation	1,986	17.8	15.3	10.2	8.6
Sulzer	2,610	14.5	13.3	6.8	6.2
Weir Group	5,488	19.7	17.6	12.0	10.8
Average		23.0	20.5	13.8	12.3
SIT at market price*	206	14.2	9.9	6.0	4.9
% premium (discount) %		-38.2	-51.5	-56.5	-59.9

Price at market close on 24/03/2022; Source: FactSet and *Intesa Sanpaolo Research estimates

SIT – Peer comparison based on Italian companies

x	Market Cap. (EUR M)	P/E		EV/EBITDA	
		2022E	2023E	2022E	2023E
Gefran	140	11.1	10.5	5.2	4.7
Interpump	4,958	20.2	19.0	12.3	11.3
LU-VE	412	17.4	13.8	8.5	7.1
Sabaf	234	8.6	7.8	5.4	4.7
Ariston	3,130	19.1	17.2	8.7	8.0
Average		15.3	13.7	8.0	7.2
SIT at market price*		14.2	9.9	6.0	4.9
% premium (discount) %		-7.1	-27.3	-25.0	-31.1

Price at market close on 24/03/2022; Source: FactSet and *Intesa Sanpaolo Research estimates

SIT – Valuation with trading multiples

x	P/E		EV/EBITDA	
	2022E	2023E	2022E	2023E
Average International peers	23.0	20.5	13.8	12.3
Net profit	14.5	20.7		
EBITDA			51.7	59.2
EV			714.6	728.5
Net debt			-99.7	-81.0
Equity value	333.1	424.2	614.9	647.5
Value per share (EUR)	13.3	16.9	24.5	25.8
Average Italian companies	15.3	13.7	8.0	7.2
Net profit	14.5	20.7		
EBITDA			51.7	59.2
EV			414.5	424.2
Net debt			-99.7	-81.0
Equity value	221.7	283.2	314.8	343.1
Value per share (EUR)	8.8	11.3	12.5	13.7

Source: Intesa Sanpaolo Research estimates

At our target price, SIT would trade at 8.1x 2022E EV/EBITDA which is still below the average multiple of our peers' sample of international companies (13.8x) and in line with Italian companies. P/E would stand at 21.5x vs. 23.0x for international companies and 15.3x for Italian companies.

SIT – Implicit multiples in our EUR 12.4/sh target price

x	2022E	2023E	2024E
P/E	21.5	15.0	13.2
EV/EBITDA	8.1	6.7	5.9
EV/EBIT	18.0	13.3	11.2
EV/Sales	1.06	0.96	0.87
EV/CE	1.60	1.56	1.52
P/BV	1.94	1.79	1.66
P/CF	7.79	6.81	6.02

Source: Intesa Sanpaolo Research estimates

ESG Corner

Sustainability is part of SIT's mission and vision and, since 2018, the company publishes a sustainability report and monitors the environmental, social and economic impacts of its business activities, with a view to continuous improvements. In addition, SIT has begun numerous collaborations with leading institutions, universities and trade associations in order to define the near future for the use of alternative gases in domestic use. Hydrogen, particularly, is a leading driver of development. In this area, SIT is working alongside the most significant multinational firms, those for whom it has always been a strategic supplier.

SIT – ESG green paper



Source: Company data

SIT Group monitors on a continuous basis the production activities commissioning to external laboratories to analyse and report the compliance to the environmental regulation and intends to adopt a Carbon Footprint Systematic Approach to assess its impact on the environment in terms of carbon dioxide (CO₂) emissions resulting from the manufacture of three product categories: valves, electronic circuit boards, and fans. The company has implemented an Environmental Management System (EMS) at its production facilities in Rovigo (Italy), Monterrey (Mexico) and Brasov (Romania). The system defines specific monitoring and control procedures, assigns clear roles and responsibilities, and guarantees active communication with stakeholders and control bodies. The system also requires the production facilities to annually define initiatives to improve environmental performance.

Environmental sustainability

SIT is committed to guaranteeing respect for diversity, the rights of individuals, general well-being and professional growth. At the end of December 2020, the company has 2,484 employees, including the workforce of companies established and acquired by SIT in the second half of 2020 with a strong percentage of female (around 61% of the total workforce). Approximately 72% of group employees work in offices and facilities in Italy and Romania. Injury data for 2020 highlight the group's effective commitment to reducing its employee injury rate. Commitment takes the form of technical measures, such as increasing automation and designing appropriate workstations, as well as

Social sustainability

enlisting expert employees to provide specific training. A total of 11 workplace injuries (applying to both employees and external workers) occurred across the group sites during 2020. No injury occurred causing serious consequences for workers. A total of approximately 51,368 training hours were provided during 2020, of which 60% for health and safety training.

SIT's Board has 7 Directors, of which 4 are independent and 3 are female. One Director has been appointed in charge for ESG. The company also has a Code of Ethics and a Control, Risks and Sustainability Committee, which supports the evaluation and decision of the Board of Directors concerning the Internal Control and Risk Management System, in addition to those concerning the approval of the relative periodic financial reports and non-financial statements. In July 2021 was appointed an executive Director in charge for sustainability which introduced a new sustainability governance while SIT adopted a long-term incentive program with 20% of pay-out related to ESG KPI. We also highlight that 2021 MBO program includes ESG targets with 20-25% weight on total KPI.

We also recall that in 2021 SIT has signed two loans at favourable financial conditions related to the achievement of sustainability targets for a total value of EUR 130M.

Corporate governance

Savings from loans related to the achievement of ESG goals

SIT – Key Data

Rating	Target price (EUR/sh)		Mkt price (EUR/sh)		Sector	
BUY	Ord 12.4		Ord 8.16		Engineering & Machinery	
Values per share (EUR)	2019A	2020A	2021A	2022E	2023E	2024E
No. ordinary shares (M)	25.01	25.01	25.09	25.11	25.11	25.11
Total no. of shares (M)	25.01	25.01	25.09	25.11	25.11	25.11
Market cap (EUR M)	195.13	124.79	214.31	204.90	204.90	204.90
Adj. EPS	0.60	0.54	0.65	0.58	0.83	0.94
CFPS	0.78	0.74	1.5	1.6	1.8	2.1
BVPS	5.9	6.1	6.1	6.4	6.9	7.5
Dividend ord	0.14	0.28	0.30	0.30	0.40	0.45
Income statement (EUR M)	2019A	2020A	2021A	2022E	2023E	2024E
Revenues	352.2	320.7	380.5	399.5	418.7	439.3
EBITDA	48.74	43.62	51.22	51.73	59.24	63.92
EBIT	24.73	19.62	24.33	23.14	29.79	33.57
Pre-tax income	21.32	15.99	11.71	19.08	27.29	31.07
Net income	19.93	13.23	8.24	14.50	20.74	23.62
Adj. net income	14.90	13.41	16.31	14.50	20.74	23.62
Cash flow (EUR M)	2019A	2020A	2021A	2022E	2023E	2024E
Net income before minorities	19.9	13.2	8.2	14.5	20.7	23.6
Depreciation and provisions	24.0	24.0	26.9	28.6	29.5	30.3
Others/Uses of funds	-18.9	-3.8	-1.7	11.5	-1.3	-1.3
Change in working capital	-5.5	-14.8	4.4	-14.6	-3.2	-1.0
Operating cash flow	19.5	18.6	37.8	40.0	45.7	51.7
Capital expenditure	-23.0	-12.7	-26.1	-25.4	-19.5	-20.5
Financial investments	0	0	0	0	0	0
Acquisitions and disposals	0	-28.4	0	0	0	0
Free cash flow	-3.4	-22.5	11.7	14.5	26.2	31.2
Dividends	-7.0	-3.5	-6.9	-7.5	-7.5	-10.0
Equity changes & Non-op items	3.3	-11.3	4.2	0	0	0
Net cash flow	-7.1	-37.4	9.0	7.0	18.7	21.2
Balance sheet (EUR M)	2019A	2020A	2021A	2022E	2023E	2024E
Net capital employed	226.0	269.0	260.4	260.4	254.9	247.2
of which associates	0	0	0	0	0	0
Net debt/-cash	78.4	115.8	106.7	99.7	81.0	59.8
Minorities	0	0	0	0	0	0
Net equity	147.6	153.2	153.7	160.6	173.9	187.4
Minorities value	0	0	0	0	0	0
Enterprise value	273.5	240.5	321.0	304.6	285.9	264.7
Stock market ratios (x)	2019A	2020A	2021A	2022E	2023E	2024E
Adj. P/E	13.1	9.3	13.1	14.1	9.9	8.7
P/CFPS	10.0	6.7	5.7	5.1	4.5	4.0
P/BVPS	1.3	0.81	1.4	1.3	1.2	1.1
Payout (%)	23	52	46	52	48	48
Dividend yield (% ord)	1.8	5.6	3.5	3.7	4.9	5.5
FCF yield (%)	-1.8	-18.0	5.5	7.1	12.8	15.2
EV/sales	0.78	0.75	0.84	0.76	0.68	0.60
EV/EBITDA	5.6	5.5	6.3	5.9	4.8	4.1
EV/EBIT	11.1	12.3	13.2	13.2	9.6	7.9
EV/CE	1.2	0.89	1.2	1.2	1.1	1.1
D/EBITDA	1.6	2.7	2.1	1.9	1.4	0.94
D/EBIT	3.2	5.9	4.4	4.3	2.7	1.8
Profitability & financial ratios (%)	2019A	2020A	2021A	2022E	2023E	2024E
EBITDA margin	13.8	13.6	13.5	12.9	14.1	14.6
EBIT margin	7.0	6.1	6.4	5.8	7.1	7.6
Tax rate	6.5	17.3	29.6	24.0	24.0	24.0
Net income margin	5.7	4.1	2.2	3.6	5.0	5.4
ROCE	10.9	7.3	9.3	8.9	11.7	13.6
ROE	14.6	8.8	5.4	9.2	12.4	13.1
Interest cover	5.9	5.0	1.7	5.7	11.9	13.4
Debt/equity ratio	53.1	75.5	69.5	62.1	46.6	31.9
Growth (%)		2020A	2021A	2022E	2023E	2024E
Sales		-8.9	18.6	5.0	4.8	4.9
EBITDA		-10.5	17.4	1.0	14.5	7.9
EBIT		-20.7	24.0	-4.9	28.7	12.7
Pre-tax income		-25.0	-26.8	63.0	43.0	13.9
Net income		-33.6	-37.7	75.9	43.0	13.9
Adj. net income		-10.0	21.6	-11.1	43.0	13.9

MM: not meaningful; NA: not available; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Company Snapshot

Company Description

The SIT Group, through its two divisions Heating and Smart Metering, creates intelligent solutions for the control of environmental conditions and consumption measurement for a more sustainable world. A market-leading multinational company, listed on the MTA segment of Borsa Italiana, SIT aims to be the number one sustainable partner for energy and climate control solutions for its customers, focusing on experimentation and the use of alternative gases with low environmental profiles. The Group has production sites in Italy, Mexico, the Netherlands, Romania, China, Tunisia and Portugal, in addition to a commercial structure covering all global markets.

Key data

Mkt price (EUR)	8.16	Free float (%)	26.1
No. of shares	25.09	Major shr	SIT Tech.
52Wk range (EUR)	12.0/7.1	(%)	73.4
Reuters	SIT.MI	Bloomberg	SIT IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	-7.3	-1M	-2.9
-3M	-22.3	-3M	-14.3
-12M	12.7	-12M	10.9

Key Risks

Company specific risks:

- End of the rollout of smart gas metering in Italy;
- Supply chain risk: in Ukraine there is a strategic supplier
- Potential shortage of components could reduce production
- Large component of goodwill (around 30% of capital employed);

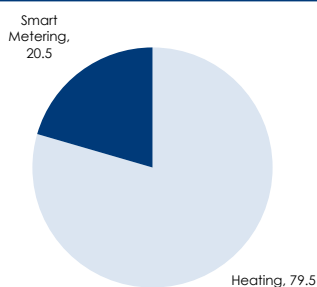
Sector generic risks:

- Inflation risk
- Regulatory risk;
- Lengthy time to market for new products due to the length of the testing and homologation process.

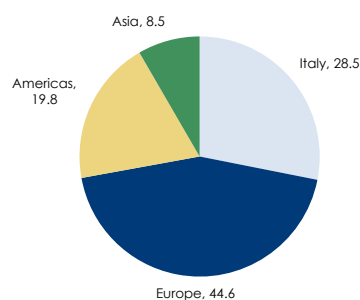
Estimates vs. consensus

EUR M (Y/E Dec)	2021A	2022E	2023E	2024E
Sales	380.5	399.5	418.7	439.3
EBITDA	51.22	51.73	59.24	63.92
EBIT	24.33	23.14	29.79	33.57
Pre-tax income	11.71	19.08	27.29	31.07
Net income	8.24	14.50	20.74	23.62
EPS	0.65	0.58	0.83	0.94

Sales breakdown by product (%)



Sales breakdown by geography (%)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 25/03/2022)

Our Mid Corporate Definition

Italy is characterised by a large number of non-listed and listed micro, small and medium-sized companies. Looking at the revenues of these Italian companies, around 5,000 companies eligible for listing have revenues below EUR 1,500M based on Intesa Sanpaolo elaborations. We define these companies as 'Mid Corporate'. Looking more specifically at Italian listed companies, we include in our Mid Corporate segment all STAR companies and those with a market capitalisation below EUR 1Bn.

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Equity rating key: (long-term horizon: 12M)

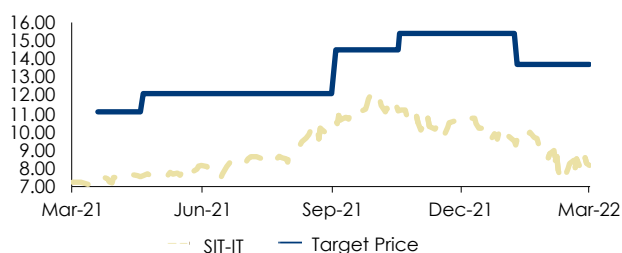
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Equity Rating Key (long-term horizon: 12M)

Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
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NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances.
TENDER SHARES	We advise investors to tender the shares to the offer.
TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

Historical recommendations and target price trends (long-term horizon: 12M)

The 12M rating and target price history chart(s) for the companies currently under our coverage can also be found at Intesa Sanpaolo's website/Research/Regulatory disclosures: <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/tp-and-rating-history-12-months->. Note: please also refer to <https://group.intesasanpaolo.com/it/research/equity-credit-research/equity> in applicable cases for the ISP-UBI Equity Ratings Reconciliation Table, the archive of ex-UBI's previously published research reports and 12M historical recommendations.

Target price and market price trend (-1Y)**Historical recommendations and target price trend (-1Y)**

Date	Rating	TP (EUR)	Mkt Price (EUR)
02-Feb-22	BUY	13.7	9.6
11-Nov-21	BUY	15.4	11.1
27-Sep-21	BUY	14.5	10.6
14-May-21	BUY	12.1	7.6
12-Apr-21	BUY	11.1	7.5

Equity rating allocations (long-term horizon: 12M)**Intesa Sanpaolo Research Rating Distribution (at January 2022)**

Number of companies considered: 124	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)*	48	31	21	0	0
of which Intesa Sanpaolo's Clients (%)**	82	63	54	0	0

* Last rating refers to rating as at end of the previous quarter; ** Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and investment banking services in the last 12 months; percentage of clients in each rating category

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Equity rating key (short-term horizon: 3M)

Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
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- One or more of the companies of the Intesa Sanpaolo Banking Group have a Long position larger than the 0.5% of the issued share capital of SIT
- Intesa Sanpaolo acts as Corporate Broker relative to securities issued by SIT

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